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SUBJECT: ARGENTINA: AMBASSADOR MEETS WITH YOUNG, DYNAMIC GOVERNOR OF SALTA PROVINCE

REF: BUENOS AIRES 0311

Classified By: Ambassador E. Anthony Wayne for reasons 1.4 (B) and (D)

¶1. (C) Salta Governor Juan Manuel Urtubey (protect) told the Ambassador that the export taxes imposed on the agricultural sector are hindering economic growth and thus negatively affecting his province. While close to President Cristina Fernandez de Kirchner, Urtubey was clearly feeling local pressure on the export tax issue and he sought to lower his public profile in support of the government in recent weeks. Drug trafficking is on the rise in this border region where drug use too faces an upward trend, he said. As he attempts to increase revenues in this poor province, Urtubey is seeking ways to restructure his province's debt. Acknowledging the extent of Bolivia's investment in Salta, Urtubey is concerned that Argentina's current political climate could scare off investors from Bolivia. Disillusioned with the current lack of moderate political attitudes, Urtubey said he is confident that a more moderate political climate will emerge as a new generation of leaders emerges. End Summary.

Salta,s Ambitious New Governor Faces a Host of Troubles

¶2. (U) On July 2, Ambassador Wayne met with Salta Governor Juan Mauel Urtubey. They agreed on the importance of relations between Argentina and the United States and on strengthening those relations to include the fight against drug trafficking, and increased commerce, tourism development, and business links with the U.S. Urtubey addressed the wide range of troubles he is facing since assuming office in December to include floods, economic inequality, rising crime and drug use, provincial debt, the negative impact of the current agricultural taxation scheme in his province, and the external perception of Argentina's domestic politics. He noted that coming from a farm family himself, he understands the real cost structure in soy and other productions and that the current government tax system does not adequately reflect those production costs. He indicated his hope that a solution to the agricultural tax debate would emerge soon.

¶3. (SBU) Urtubey noted that Salta Province's economy is falling behind the rest of the country, stressing the need to grow at an average of two percentage points more than national GDP just to close the gap with other provinces. He stated that the economy in his province was growing until the recent taxation of the agricultural sector began to stifle the economy once again.

Drug Problems

¶4. (SBU) The Ambassador congratulated Urtubey on the Salta Provincial Police's recent seizure of 226 kilograms of

cocaine, the largest to date. Urtubey affirmed that drug trafficking is widely prevalent in his province. Drug use, too, has increased as a result of the increasing practice of narcotraffickers to make in-kind payments for transit expenses. Worriedly, Urtubey described how cocaine is in use as a form of tender in Salta and that cocaine's wide availability is driving the price downward and local consumption upward. Urtubey said he needed radar and air traffic control to combat air trafficking of cocaine.

Debt

¶ 15. (SBU) Stressing his wishes to restructure Salta's approximately US\$160 million in outstanding dollar-denominated debt, Urtubey was quick to point out that the Salta Hydrocarbon Royalty Trust bonds performed throughout the Argentine crisis and continue to perform in good standing. The debt is backed by royalty payments from oil and gas firms operating in the province. Urtubey wants to take on Argentine federal debt and make an offer to the current bondholders of the trust in order to buy them out. Federal debt, he argues, is cheaper to service and more likely to be renegotiated on terms favorable to Salta. But he acknowledged that he can only make an offer to the current bond holders and has no intention of forcing them to sell.

Bolivia

¶ 16. (SBU) Urtubey highlighted his province's economic ties with Bolivia, acknowledging the apprehension investors must feel regarding Argentina's current political climate. Bolivians have large investments in Salta as a result of Bolivia's current political and economic environment.

Governor Urtubey Calls for Political Moderation

¶ 17. (C) Governor Urtubey (protect) offered an analysis of political trends in Argentina. In his view, the generation that came of age in the early 1970s is now the one in power. However, their mindset is outdated, not embracing the concept of a vocal opposition, but rather defensive in the face of it. He expressed confidence in the possibility of a better government with a newer vision after the next presidential elections. Argentina cannot backslide any further, he said. Moderating political and congressional attitudes, he notes, is imperative for Argentina's success.

Comments

¶ 18. (SBU) Governor Urtubey has been cited as one of Argentina's new generation of leaders. Most illuminating was Urtubey's analysis of trends in Argentina's domestic politics. Having spent a good deal of time in the U.S., he is open to close relations and familiar with our norms. He and Chaco governor Capitanich are two promising young leaders from poorer northern provinces who seem both pro-business and seeking new patterns of Peronist politics for Argentina's future.

WAYNE